TAX EXPENDITURES: BUDGET CONTROL OPTIONS AND FIVE-YEAR BUDGET PROJECTIONS FOR FISCAL YEARS 1983-1987

Congress of the United States
Congressional Budget Office

PREFACE

The Congressional Budget Office is required by Section 308(c) of the Congressional Budget Act of 1974 to issue a report each year that projects tax expenditures for each of the next five fiscal years. This report fills that statutory requirement for fiscal years 1983 to 1987.

This report also discusses a variety of options for controlling tax expenditures through the budget process, an issue that has been the subject of hearings and study in both the House and Senate during the past year. The report also details the changes in tax expenditures made during calendar year 1982, including those in the Tax Equity and Fiscal Responsibility Act of 1982, and discusses the implications of that experience for future control of tax expenditures through the budget process. Finally, the report describes the Canadian "envelope" system of budget making, which requires direct comparisons and trade-offs among tax expenditures and related direct spending programs, and discusses some of the implications of this Canadian system for control over tax expenditures through the U.S. Congressional budget process.

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SUMMARY

Tax expenditures are provisions of the federal tax code that give special incentives for particular kinds of activities or that give selective tax relief to certain groups of taxpayers. Examples are the investment tax credit for investment in business machinery and equipment and the extra $1,000 personal exemption for persons age 65 and over.

Tax expenditures are similar in important ways to direct spending programs. They add to the federal deficit in the same way that direct spending programs do, and they allocate resources and provide incentives and benefits in the same way that spending programs do.

The growth in tax expenditures in recent years and the need to make substantial reductions in future federal deficits have combined to stimulate Congressional interest in finding better ways to control tax expenditures. The budget process as it currently operates imposes fewer controls on tax expenditures than it does on direct spending programs. Tax expenditures are controlled only indirectly, through the floor that budget resolutions set on total revenues. Spending programs, by contrast, are controlled not only by a ceiling on outlays, but also by a process that establishes targets for various categories of outlays, and divides those targets among the committees that have jurisdiction over spending programs. The Congress as a whole is thus able to indicate systematically its broad priorities for spending programs in a way that it cannot for tax expenditures.

Tax expenditures can be controlled by seeking to limit the total level of tax expenditures, the purposes for which tax expenditures are used, or both. Emphasizing control over the aggregate level of tax expenditures reflects an assumption that the major problem is excessive use of the tax code to achieve special, nonrevenue purposes. Reducing total tax expenditures is mainly a tax policy goal, prompted by the complexities, perceived inequities, and economic distortions that can result when the tax system is pushed beyond its basic function of raising revenues. Control over the aggregate level of tax expenditures is generally not necessary to achieve overall fiscal policy or revenue goals; the total revenue floor in the budget resolution is usually sufficient for those purposes.

Emphasizing control over the purposes for which tax expenditures are used, on the other hand, reflects mainly a concern over budget priorities and the proper allocation of scarce budget resources to particular groups or

activities. The desirability of either of these approaches, therefore, depends on the weight that is attached to these different goals and the likely effectiveness of each approach in achieving them.

LESSONS FROM RECENT EXPERIENCE

Tax expenditures have grown sharply in recent years. In 1967, the first year for which a tax expenditure budget was compiled, there were 50 items with a total revenue loss of $36.6 billion--4.4 percent of gross national product (GNP). By fiscal year 1982, tax expenditures had grown to a total of $253.5 billion--8.3 percent of GNP. The most recent list of tax expenditures, included in Appendix A of this report, shows 104 items totaling an estimated $273.1 billion for fiscal year 1983.

The Economic Recovery Tax Act of 1981 added 11 new tax expenditures, expanded 21 existing ones, and reduced only two. The 1981 act directly increased tax expenditures by $25.4 billion in fiscal year 1983 and $57.3 billion in fiscal year 1985, although this was offset to some extent by reductions in tax expenditures resulting from the multiyear reduction in individual income tax rates in the act.

In 1982, by contrast, the Congress made major reductions in tax expenditures. The first concurrent resolution on the budget for fiscal year 1983 required revenue increases totaling nearly $98.3 billion for fiscal years 1983 to 1985. The Tax Equity and Fiscal Responsibility Act of 1982 met that requirement by raising an estimated $100 billion over the 1983-1985 period, $31 billion of it from reduction or elimination of tax expenditures. The act contained 13 provisions that reduced tax expenditures and only two that increased them.

The budget resolution for fiscal year 1983 did not specify to the tax committees how the required tax increases were to be achieved. Nonetheless, many of the tax expenditure modifications made by the tax committees were of a type frequently advocated by those who support strengthening the budget process' control over tax expenditures. Some tax expenditures were targeted more narrowly on individuals with the greatest need, business tax incentives that many argued were so large that they could distort investment decisions were scaled back, and some older provisions that were being used in ways the Congress did not originally anticipate were reined in. Furthermore, these tax expenditure reductions were used to avoid the need to cut back scheduled future rate reductions, thereby following the combined base-broadening and rate-reduction approach favored by many who seek to use the budget process to achieve tax policy goals.

A continuation of this new pattern could reduce the case for expanding existing controls over tax expenditures. Experience over longer periods suggests, however, that extrapolations based on one-year trends in tax policy may not be wholly reliable.

CONTROLLING AGGREGATE TAX EXPENDITURES

The budget process can be used to require, for example, that total revenues be raised by $10 billion, but under current procedures it cannot be used to require a $10 billion reduction in tax expenditures. As a result, the tax-writing committees are free to reach budgetary revenue-raising targets by any combination they choose of increases in individual or corporate income taxes, reductions in tax expenditures, or increases in other taxes. In terms of overall fiscal policy, it may make relatively little difference how it is done, since there are few systematic differences between the macroeconomic effects of changes in tax expenditures and other kinds of tax changes. In terms of tax policy, however, and the use of the tax system to achieve nontax purposes, it can make a big difference. Reducing some of the special exclusions, deductions, and exemptions in the tax code by reducing tax expenditures can help to achieve tax policy goals of simplicity, equity, and neutrality. In general, tax expenditures make the tax code more complicated by adding extraneous provisions to which both taxpayers and the IRS must devote additional time, they make it less equitable by treating differently taxpayers who are otherwise alike, and they make it less neutral by favoring some types of economic activity over others.

To the extent that tax policy goals are furthered by limiting or cutting back tax expenditures, the present system of placing a floor on total revenues can have a significant effect by itself, without the additional step of putting a ceiling on total tax expenditures. With a revenue floor, increases in tax expenditures crowd out opportunities for rate reductions or other forms of general across-the-board tax reductions, while reductions in tax expenditures make revenues available for these more general kinds of tax cuts. The explicit competition between these two different approaches that is forced by a floor on revenues puts an extra burden of proof on tax expenditures.

While there are definitional and measurement problems with the arithmetic total of tax expenditures that have led many to argue that it should not be used for budget control purposes, most of these problems can be avoided if controls are focused on incremental changes to the total rather than on the total itself. Instead of saying, for example, that tax expenditures shall not exceed some total dollar amount in a particular year, or some percentage of total GNP or revenues, the budget resolution could specify that existing tax expenditures must be reduced by $10 billion, or that no more than $10 billion in new tax expenditures may be enacted. With this approach, the fact that there may be controversy over whether some items in the current tax expenditure list are properly classified is irrelevant; the only question is the more manageable one of whether the law changes currently under consideration represent changes in tax expenditures. Similarly, the question of whether it is proper to add up all the items on the current tax expenditure list without taking into account possible interactions among them and other parts of the tax system is also irrelevant; only the revenue effects of bills currently being considered are important, and any relevant interactions among them and the rest of the tax system can be calculated fairly easily.

CONTROLLING THE PURPOSES FOR WHICH TAX EXPENDITURES ARE USED

Budget resolutions do not require changes in specific spending programs or specific taxes. The authorization and appropriation committees that have jurisdiction over spending programs have considerable discretion in deciding what program changes to make to meet outlay ceilings in budget resolutions, and the tax committees currently have complete discretion to decide what kind of tax changes to make to meet budget resolution revenue floors.

In the case of spending programs, however, committee discretion is constrained by a procedure that breaks down the overall outlay ceiling into 19 separate budget functional categories, such as national defense, energy, agriculture, commerce and housing credit, income security, and so forth. The programs within these categories are then further broken down and allocated to the authorization and appropriation committees that have jurisdiction over them. Neither the budget functional categories nor the committee allocations are binding; they serve only as targets. But they enable the Congress as whole to indicate what its broad priorities are with respect to the overall allocation of federal spending.

Tax expenditures are also broken down into separate budget functional categories according to their various purposes, but this is done solely for informational purposes. The breakdown is included in the budget committees' reports on the budget resolution, but it is not included in the resolution itself and so is not voted on by the full Congress.

Argument For Controlling Tax Expenditures by Purpose

The argument for taking steps to control the purposes for which tax expenditures are used is that they are so close to spending programs in their effects on resource allocation that they ought to be subject to the same priority-setting process that is used for spending programs. Under current procedures, if the Congress as a whole has some preference as to how tax subsidies for various purposes should be allocated, there is no way of reflecting that preference, other than through ad hoc decisions on tax bills as they happen to come up for a vote.

The current process also provides no systematic way of avoiding duplication and overlap among spending programs and tax expenditures that serve similar purposes, or of forcing trade-offs among tax expenditures and spending programs to determine which is the most effective or least costly for a given purpose. Some other kinds of trade-offs are possible under current procedures, however; reductions in tax expenditures can be used to lower deficits and increase opportunities for rate reductions and other more general tax cuts. Trade-offs of this kind can be achieved without involving any committees other than those with jurisdiction over taxes.

To go beyond this, however--to set up direct trade-offs among tax expenditures and related spending or loan programs--other committees with jurisidction over those programs must be involved. In such an expanded system, reductions in tax expenditures could permit increases in related spending programs, and increases in tax expenditures could require reductions in related spending programs.

Involvement of Spending Committees

A full-scale system of this kind could present some problems. First, not all tax expenditures fit neatly within the jurisdiction of a particular spending committee, so it may not always be clear which spending programs, if any, should suffer or benefit when particular tax expenditures are changed. Second, the Congress may prefer that the revenue from any reduction in tax expenditures be used to reduce the deficit or fund a more general tax cut, rather than to fund additional spending.

This suggests that any system for involving spending committees in the consideration of tax expenditures should be an ad hoc one, at least at the outset. Case-by-case decisions would have to be made, perhaps initially by the Budget Committees, on which tax expenditures were appropriate for consideration by the spending committees, and on how the proceeds of any changes in tax expenditures should be allocated. There are

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a number of procedures that the Congress could use to initiate this kind of joint consideration of tax expenditures and spending programs.

Reconciliation. A reconciliation instruction like those now used to reinforce the deficit reduction decisions made in budget resolutions could go jointly to the tax committees and the committees with jurisdiction over spending programs in areas where cutbacks are sought. The committees involved could be given a target for total reduction in the deficit, with the distribution of that amount among reductions in direct spending and tax expenditures left to those committees.

This could begin with tax expenditures that are very closely related to specific spending programs, such as the exclusion from tax of Social Security benefits, workmen's compensation, veterans' disability compensation, and part of unemployment insurance benefits. Instead of directly reducing the benefits in these programs, the benefits could be made subject to tax. In some cases, such as Social Security, the spending program is under the jurisdiction of the tax committees, so joint action with other committees would not be required.

Referral of New or Increased Tax Expenditures. All legislation providing for new or increased tax expenditures approved by the tax committees could be referred to the committee or committees with jurisdiction over analogous spending programs. The spending committees could then recommend approval, approval with modifications, or disapproval. This could be merely an advisory procedure, or the spending committees could be allowed to amend the tax expenditures referred to them in ways that would limit the revenue loss, much as the appropriations committees may now limit authorizations for new entitlement programs referred to them under Section 401 of the Budget Act. The Congress might want to go even further and provide that approval of a new or increased tax expenditure by a spending committee to which it was referred would entail a corresponding reduction in that committee's spending allocation if the tax expenditure increase was ultimately approved by the full Congress.

Recommendations by Spending Committees. The spending committees could also be allowed to recommend to the tax committees that certain tax expenditures be increased or reduced. A spending committee might recommend an increase in tax expenditures for a particular purpose if that committee had decided to reduce a related spending program within its jurisdiction. Alternatively, spending committees faced with the need to reduce spending on programs within their jurisdiction might recommend that tax expenditures allocated to them be reduced instead. The banking committees might recommend, for example, that the new tax provisions allowing more rapid depreciation for commercial and residential real estate be scaled back in order to provide more funding for low- and moderate-income rental housing.

Arguments For and Against Involving Spending Committees. The main argument for involving spending committees in the consideration of tax expenditures is that their greater expertise in the related program areas enables them to evaluate tax expenditures more critically and to identify opportunities for trade-offs and reductions in duplication. The argument on the other side is that the spending committees have long-standing relationships with the beneficiaries and administrators of spending programs that may lead them to act as advocates for the allocation of more resources to these areas, rather than as skeptical critics.

Lessons From Credit Budgeting

The technical, jurisdictional, and other questions that may arise in any attempt to expand the controls of the budget process over tax expenditures suggest that any new procedures be used in a limited and experimental way for a period of time before being fully implemented. This is the path the Congress has followed in establishing a credit budget. The credit budget began in the first budget resolution for fiscal year 1981 with just nonbinding aggregate totals for direct loans and primary and secondary loan guarantees. The next year's resolution broke the targets down by budget functions, and the resolution for fiscal year 1983 included an allocation of the functional targets to committees. In addition, the credit limits for new loans and guarantees were made binding for the first time.

As in the case of the credit budget, new procedures for tax expenditures would not necessarily require amending the Budget Act, since Section 301 of the act allows budget resolutions to contain "such other matters relating to the budget as may be appropriate to carry out the purposes of this Act."

TAX EXPENDITURES AND THE BUDGET PROCESS IN CANADA

Canada has integrated the consideration of tax expenditures into its formal budget process more thoroughly than has the United States. In 1979, Canada instituted a new Policy and Expenditure Management System, usually called the "envelope system," under which all of the government's direct spending programs are assigned to one of ten policy areas or "envelopes." In addition to direct spending, these envelopes also include tax expenditures enacted or proposed after 1979. The combined direct spending programs and new tax expenditures in each envelope are required to stay within a spending limit set for each fiscal year. The budget-making system thus facilitates direct comparisions and trade-offs among tax expenditures and related direct spending programs.

The new Canadian system has only been in place for a relatively short period of time, so it is still a little early to judge its impact. Nonetheless, it appears to have significantly reduced the rate of increase in estimated tax expenditures (not all tax expenditures are estimated). From an annual rate of increase of about 20 percent from 1976 through 1978, the rate dropped to about 7 percent in 1979, and rose to about 11 percent in 1980. In addition, there have been a number of cases where tax expenditures have been reduced with corresponding increases in spending programs, and vice versa.

A number of features of the Canadian system for control of tax expenditures may have implications for the United States, including the Canadian decision to focus only on new tax expenditures. This decision recognizes the fact that changes in existing tax expenditures tend to be harder to make, since people have come to depend on them and strong constituencies have often developed to defend them. But it may also lead policymakers to neglect some opportunities for repeal or modification of older tax expenditures that changing circumstances have left ripe for reexamination.

CHAPTER I. INTRODUCTION

Tax expenditures are revenue losses from provisions of the tax code that provide incentives for particular kinds of activities or that give special or selective tax relief to certain groups of taxpayers. The investment tax credit, for example, provides an incentive for investment in business machinery and equipment, while the extra $1,000 personal exemption for those age 65 or over gives tax relief to that group of taxpayers. The most recent compilation of tax expenditure estimates, which is presented in Appendix A, lists 104 such provisions with an estimated total revenue loss in fiscal year 1983 of over $273 billion. This list was compiled before enactment of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), and thus does not include its effects. As discussed in more detail in Chapter II, that act contained 13 provisions that reduced tax expenditures and two that increased them. Next year's tax expenditure estimates will incorporate the effects of these changes.

The prospect of large and continuing federal budget deficits and the perceived necessity of cutting direct expenditures have prompted growing interest in improving Congressional control over tax expenditures. Bills have been introduced in both the House and Senate to subject tax expenditures to more detailed control through the budget process. Hearings on these bills were held before the Senate Committee on the Budget and the House Committee on Rules in late 1981. The June 1982 Conference Report on the First Concurrent Resolution on the Budget for Fiscal Year 1983 reflected the same concern:

> The managers of the Conference urge the budget committees and the other appropriate committees of Congress to study ways in which tax expenditures and off-budget spending can be addressed more fully in budget resolutions and incorporated into the procedures of the Congressional budget process. (p. 34)

The first resolution required revenue increases totaling nearly $98.3 billion from fiscal years 1983 to 1985. The Tax Equity and Fiscal Responsibility Act of 1982 met that requirement by raising an estimated $100 billion over the 1983-1985 period, $31 billion of it from reduction or elimination of tax expenditures.

The present budget process controls tax expenditures only indirectly, mainly through the floor imposed on total revenues in budget resolutions. Once the revenue floor is reached, any bill or amendment that would reduce revenues further is subject to a point of order. The same rule applies to outlays; any bill or amendment that would increase outlays once the budget resolution ceiling is reached is subject to a point of order. Before these limits are reached, however, there is more opportunity for the Congress as a whole to indicate its spending priorities than its priorities for tax expenditures.

Outlays are broken down in the budget resolution into budget functions (national defense, commerce and housing credit, health, income security, and so forth) in order to enable the Congress to establish broad priorities for spending programs. These function-by-function spending targets are then broken down further through a procedure that allocates the targets to the Congressional committees that have jurisdiction over specific spending programs. (This process is called "crosswalking.")

No comparable procedure is specified for tax expenditures. They are lumped together with aggregate revenues and assigned solely to the tax-writing committees. The Congress as a whole is thus unable to indicate which categories of tax expenditures it would like to see increased or reduced, as it can for broad categories of outlays. Budget resolutions can be used to put pressure on the tax committees to limit or reduce tax expenditures in general by increasing the revenue floor in the resolution, perhaps accompanied by a directive to raise revenues using reconciliation procedures. But there is no way currently for the entire Congress to indicate which categories of tax expenditures should be reduced or increased.

Control over aggregate revenues and outlays is generally sufficient to meet the fiscal policy goals of the budget process, since the macroeconomic effects of different individual spending or tax changes of the same size are often quite similar, and in any event are difficult to predict with confidence. The large econometric models that must be used to estimate such effects normally do not include enough detail to measure the effects of individual program changes and often produce conflicting estimates of the effects of even major fiscal policy changes.[1] But if the budget process

1. For a discussion of the macroeconomic effects of four major types of fiscal policy changes (reductions in individual and corporate income taxes and reductions in federal purchases and transfer payments to individuals), see Congressional Budget Office, How Changes in Fiscal Policy Affect the Budget: The Feedback Issue (June 1982).

is also to serve as a means of setting priorities for resource allocation within an overall fiscal policy framework, then some breakdown of the aggregates is necessary. This priority-setting mechanism is used now for spending programs, and it is being developed for loan programs, but it has not been applied to tax expenditures.

Chapter II describes some of the major changes made in tax expenditures this year as a result of the first budget resolution for fiscal year 1983 and the actions taken by the tax committees to implement it, and discusses some of the implications of this experience for the control of tax expenditures. Chapter III examines some options for controlling tax expenditures through the budget process, and discusses the pros and cons of extending the scope of the budget process in this way. Chapter IV describes the new Canadian system for controlling both tax expenditures and direct outlays by establishing budgetary "envelopes" that include all spending and tax expenditure programs in related areas, and by requiring direct trade-offs among both types of programs. Appendix A shows tax expenditure estimates for fiscal years 1982 to 1987, covering tax expenditures under the law in effect on December 31, 1981. Appendix B groups tax expenditures under the Congressional committees with authorizing jurisdiction over related direct spending programs. Appendix C gives the initial authorization date for all current tax expenditures, and Appendix D gives the expiration dates for all tax expenditures that have them. Appendix E provides estimates of certain tax expenditures by adjusted gross income class.

CHAPTER II. TAX EXPENDITURE CHANGES IN CALENDAR YEAR 1982

THE BUDGET RESOLUTION AND THE 1982 TAX ACT

The Congress enacted major changes in tax expenditures in 1982. In contrast to recent years, tax expenditures, on balance, were reduced rather than increased. In large measure this was an outcome of the severe budget pressures faced by the Congress. As noted in Chapter I, these pressures led to a budget resolution and a tax act that will increase revenues by an estimated $100 billion over fiscal years 1983-1985. As shown in Table 1, existing tax expenditures were reduced by 13 provisions of the Tax Equity and Fiscal Responsibility Act (TEFRA). Two of the provisions--the alternative minimum tax for individuals and the reduction in business preference items--apply to a wide variety of tax expenditures. Two provisions of the 1982 act increase tax expenditures, with the major increase coming from an expansion and extension of the targeted jobs tax credit. Altogether, these tax expenditure changes will result in an estimated net increase in revenues of $31 billion over the 1983-1985 period, nearly a third of the total revenue increases in the act.

By contrast, the Economic Recovery Tax Act of 1981 (ERTA) added 11 new tax expenditures, expanded 21 existing ones, and reduced only two (see Table 2). The 1981 act directly increased tax expenditures by $25.4 billion in fiscal year 1983 and $57.3 billion in fiscal year 1985, but this was offset to some extent by reductions in tax expenditures resulting from the multiyear reduction in individual income tax rates in the act. As discussed in the next chapter, reductions in tax rates reduce the revenue loss from all existing tax expenditures that take the form of deductions, exemptions, or exclusions from income. Because of complex interactions, the total effect of rate reductions on existing tax expenditures is normally not separately calculated, but it is reflected in the tax expenditure budgets that are prepared after rate cuts are enacted. The full effects of the Economic Recovery Tax Act of 1981 are included in the tax expenditure estimates in Appendix A.

IMPLICATIONS FOR THE FUTURE

The 1982 experience has shown that substantial reductions in tax expenditures can be achieved through the budget process as it is now applied. The budget resolution for fiscal year 1983 established an overall

TABLE 1. ESTIMATED REVENUE EFFECTS OF CHANGES IN TAX EXPENDITURES IN THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982, FISCAL YEARS 1983-1987 (In millions of dollars)

Change	1983	1984	1985	1986	1987
Reductions in Tax Expenditures					
Alternative minimum tax	a	+659	+701	+741	+729
Medical deduction	+272	+1,788	+1,671	+1,795	+1,947
Ten percent casualty deduction floor	---	+666	+734	+800	+880
Reduction in corporate preference items	+515	+936	+948	+918	+995
Investment tax credit basis adjustment	+362	+1,374	+2,658	+4,109	+5,579
Limit ITC to 85 percent of tax liability	+152	+259	+213	+178	+164
Accelerated depreciation--1985 and 1986	---	---	+1,541	+9,907	+18,442
Construction period interest and taxes	+555	+1,179	+1,206	+1,084	+819
Modifications to pre-ERTA and safe-harbor leasing rules[b]	+1,036	+2,649	+4,252	+5,496	+7,000
Limit on U.S. possessions credit	+201	+428	+473	+516	+559
Private purpose tax-exempt bonds	+63	+261	+539	+748	+1,076
Pension provisions	+194	+780	+870	+970	+1,058
Reduction to $18,000/12,000 of income threshhold for tax on unemployment compensation benefits	+763	+734	+611	+618	+650
Subtotal	+4,113	+11,713	+16,417	+27,880	+39,898
Increases in Tax Expenditures					
Targeted jobs credit	-182	-551	-591	-271	-54
National Research Service Awards	-8	-7	-4	-2	a
Subtotal	-190	-558	-595	-273	-54
Total	+3,923	+11,155	+15,822	+27,607	+39,844

SOURCE: Summary of the Revenue Provisions of H.R. 4961 (The Tax Equity and Fiscal Responsibility Act of 1982), prepared by the Joint Committee on Taxation, August 24, 1982.

a. Negligible.
b. ERTA = Economic Recovery Tax Act of 1981.

target for revenue increases, without specifying to the tax committees how those increases were to be achieved. While the budget resolution also did not specify exactly how its required reductions in spending were to be achieved, the process by which spending targets were allocated to various committees left them with less discretion than the tax committees had over revenues.

Nonetheless, many of the modifications in tax expenditures made by the tax committees were of a type frequently advocated by those who support strengthening budget process controls over tax expenditures. The limits on medical and casualty deductions, the increased taxation of unemployment compensation benefits, and the reduced ceilings on company-based pension plan benefits all served to target tax expenditures more narrowly on individuals with the greatest need. The cutbacks in the investment tax credit and accelerated depreciation served to reduce investment incentives that many economists argued were too large and were thus distorting investment decisions and reducing overall economic efficiency. The limits on private purpose tax-exempt bonds and the tax credit for corporations in U.S. possessions scaled back provisions that were being used in ways the Congress did not originally anticipate.

Furthermore, these tax expenditure reductions were linked with reductions in marginal tax rates, since they enabled the Congress to meet its revenue-raising goals without disturbing the multiyear income tax rate cuts and the 1985 tax rate indexing enacted in the Economic Recovery Tax Act of 1981. The tax committees thus followed the base-broadening, rate-reduction approach frequently advocated by those who seek to use budget process controls over tax expenditures to achieve tax policy goals. The major difference was that the rate reductions were enacted first, with the base broadening coming later, rather than all being done at once.

As indicated, this year's experience represented a departure from the pattern of previous years. A continuation of this new pattern could reduce the case for expanding existing controls over tax expenditures. Experience over longer periods suggests, however, that extrapolations based on one-year trends in tax policy may not be wholly reliable. The arguments for and against imposing additional controls on tax expenditures are discussed in more detail in the next chapter.

OTHER MISCELLANEOUS TAX EXPENDITURE CHANGES

In addition to the major changes in tax expenditures that were made in the Tax Equity and Fiscal Responsibility Act, two smaller changes were made in other legislation. The Miscellaneous Revenue Act of 1982 (P.L.